BELL POTTER

Speculative

See key risks on Page 4 and Biotechnology Risk Warning on Page 7. Speculative securities may not be suitable for Retail Clients.

12 August 2022

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Universal Biosensors (UBI)

Spending to secure the future

Recommendation
Buy (unchanged)
Price
$0.32
Valuation
$0.60 (previously $1.15)
Risk
Speculative

GICS Sector

Pharmaceuticals & Biotechnology

Expected Return	
Capital growth	**87.8%**
Dividend yield	**0.0%**
Total expected return	**87.8%**

Company Data & Ratios	
Enterprise value	**$38.6m**
Market cap	**$69.9m**
Issued capital	**211.8m**
Free float	**99%**
Avg. daily val. (52wk)	**$164,851**
12 month price range	**$0.29 - $1.04**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.35	0.50	0.80
Absolute (%)	-8.57	-36.00	-59.75
Rel market (%)	-15.14	-34.68	-52.89

Half year results reflect business transitions

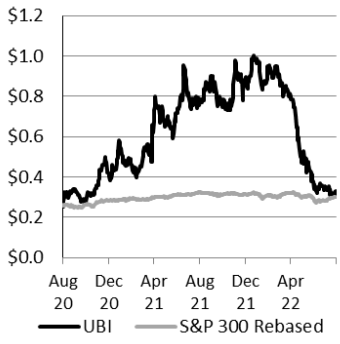
Key points from the 1HFY22 results are as follows:

- Cash and cash equivalents as at 30 June 2022 was $33.4 million (includes the $26m raise this past quarter).
- Receipts from customers increased 80% to $2.4m compared to the pcp.
- Operating expenses were $9.7m (above our BPe of $7.5m for the first half of the year).
- R&D costs were $6.3m compared to $2.8m in 1HFY21.
- Revenue was down -9.1% compared to pcp ($3.1m compared to $3.4m in 1HFY21) – attributed to the timing of Siemens orders and Siemens running existing stock levels down to zero (recall that the supply deal with UBI ends during 1HFY23), while sales of Sentia for 1HFY22 were in line with 1HFY21.
- Revenue from the specialist hemostasis reference laboratory (HRL) was down because HRL had a 6-week shutdown as it moved premises and commissioned a new laboratory + equipment. We expect a return to increasing sales from 2HFY22 given the capacity of the new lab.
- Total loss for the period was up 186% ($9.2m vs $3.2m in the pcp) – this was driven mostly by an R&D spending increase and lower revenues due to the distribution transition away from Siemens. This change will result in a 13% increase in average selling price per strip. UBI has now taken more than 50% of the Siemens' distribution network, with another 15% currently under negotiation.

Investment view: Valuation $0.60, Retain Buy (Spec.)

We maintain our Buy (Spec.) rating and have reduced our valuation to $0.60 from $1.15 per share. The valuation is DCF driven, and incorporates an assumed WACC of 11.5% and a 3% terminal growth rate. The entitlement offer has also had a dilutive effect via the new issuance of shares, which is also reflected in the new valuation

Absolute Price



SOURCE: IRESS

Earnings Forecast

December Year End	FY21	FY22e	FY23e	FY24e
Revenues	5.8	8.4	13.9	25.5
EBIT (A$m)	-10.5	-9.4	-5.6	1.0
NPAT (A$m)	-10.5	-9.5	-5.7	0.9
EPS (cps)	-5.9	-4.9	-2.7	0.4
EPS growth (%)	nm	nm	nm	nm
PER (x)	nm	74.4	7.5	nm
FCF yield (%)	nm	nm	nm	nm
EV/EBIT (x)	nm	nm	nm	nm
Dividend (cps)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	-38	2	19	45

SOURCE: BELL POTTER SECURITIES ESTIMATES

Transition Period

Effect of the Xprecia transitions: Siemens contract completion and next generation device roll-out

The downturn in revenue reported by UBI at this past half year is not concerning as it was expected - with the ramping down of the Siemens contract on top of a move to the next generation Xprecia Prime device for coagulation testing. The new device has now been approved for use in 32 countries in Europe, and the clinical trial required for the US has recruited 281 out of a required 360 enrolled subjects. Further, UBI now has 18 distribution agreements for the new device across the globe.

Previously, UBI sold the Xprecia Stride test strips to Siemens for A$1.80-$2.00 – compared to other distributors, to whom UBI sold the strips for A$3.50-4.00. UBI made between A$1.80-2.00 per test strip, while Siemens made between A$1.70-2.00 per test strip. Going forward, without the middle-man (Siemens), UBI will sell the test strips for the Xprecia Stride (first gen. device) for A$3.00-3.50, taking the whole amount. No new Stride devices are expected to be sold.

For the 2nd generation Xprecia Prime:

- Price of Test Strip to distributors: A$3.00-3.50;
- UBI takes all of this selling price; and
- Price of devices to distributors will be approximately €500 (~A$725). Remember that this price is >$500 less than the comparable (and popular) Roche hand-held coagulation testing device.

Table 2 - changes to forecasted product sales

	Previous	New	% change	Previous	New	% change	Previous	New	% change
	FY22 expected	*FY22 expected*		*FY23 expected*	*FY23 expected*		*FY24 expected*	*FY24 expected*	
Revenue from all products	7.63	5.72	-25%	13.74	9.16	-33%	24.72	17.40	-30%
Revenue from coagulation testing products (Xprecia)	2.55	1.79	-30%	3.83	4.46	17%	5.74	7.59	32

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The company also spent $1m on the move to a new HRL, which also slowed revenue from this arm of the business. Again, we expect this to substantially increase future revenues from this segment.

Sentia

Sales of Sentia modestly increased over the period, and we expect this to continue to rise as the sales force and distribution network continue to expand, and UBI adds new tests to this device (for example glucose has been added since the 1HFY22 results).

What UBI spent on the development of assets in 1HFY22:

In total the company spent $4.49m on non-recurring, intangible development assets. This includes:

1 $2.47m in Petrakr - the veterinarian blood glucose product;

2 $2.02m in clinical and development trials for Xprecia® Prime, Tn Antigen studies and Sentia products; and

3 $1.12m for ongoing development of oncology, fertility and COVID biosensors.

Valuation

Share placement effects

UBI raised A$26m and issued 33.8 million shares via a combined entitlement offer and institutional placement in April 2022. We previously included the ~$6m institutional placement portion of this raise and associated increase in shares on issue into our previous model (May 2022). We now include the remaining $20m and associated increase in shares on issue in the current model. These changes have improved the company's cash position (currently $33.4m) and have had a dilutive impact on the valuation.

FY22-FY24 forecasts shifted following placement and 1H results

The activities described above have impacted our forecasts and valuation, resulting in a new valuation of A$0.60 (from A$1.15), with no change to our Buy recommendation.

The cash raised during this 1HFY22 has improved the company's cash balance as described above, and 33.8 million new shares were issued. We observed changes to our forecast revenues, EBIT and NPAT that were negatively impacted by transitions this half year (Siemens contract winding down and move to new HRL facility), although we see these as positive influences on the business in the longer term.

Our valuation is derived from a discounted cash flow model. The WACC is 11.5% and we have assumed a terminal growth rate of 3%.

Table 3 - Key changes to our forecast

	FY22e			FY23e			FY24e		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Revenues	8.4	10.3	-18%	13.9	17.7	-21%	25.5	30.7	-17%
EBIT	-9.4	-7.5	25%	-5.6	-1.8	-411%	1	6.2	-84%
NPAT	-9.5	-7.8	22%	-5.7	-2	-385%	0.9	6.1	-85%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Universal Biosensors (UBI)

COMPANY DESCRIPTION

Universal Biosensors first listed on the ASX in 2006, having been established in 2001. In partnership with LifeScan– a diabetes-focussed company that was a Johnson & Johnson subsidiary at the time, UBI first developed a portable, handheld blood glucose monitor (glucometer): the OneTouch Verio that used the electrochemical cell-based biosensing technology that is now synonymous with UBI. UBI now manufactures products based around a their unique and versatile electrochemical sensor technology, including the Sentia™ wine testing device and the Xprecia™ series (Xprecia Stride™ and now the Xprecia Prime™) for the analysis of blood coagulation. Additionally, they are developing a range of new tests that use their proprietary electrochemical sensing technology. The company is also growing its commercial services laboratory (HRL), via contracts with research partners – mostly those running clinical trials.

KEY RISKS

Key risks we consider to be specific to UBI include, but are not limited to:

Commercial risk: Our forecasts assume revenue growth from both the product sales segment of the business, and from the ability of UBI to continue and to grow contract revenues for its specialty laboratory services business. Failure to achieve growth from either division of the revenue base would could see the company's earnings differ from both our forecasts and the company's forecasts.

Competitive risk: There are a number of companies with tests that operate wine testing services or devices (although none of these are as small, accessible, easy to use or inexpensive as the Sentia™. These may be viewed as competition to UBI in certain instances, especially when winemakers have large volumes (of barrels) and already have either an onsite analyser or a long-standing arrangement with a laboratory service. In our view, however, the Sentia™ leads the field in terms of accuracy, reproducibility, price and ease of use.

Various handheld PT/INR devices are currently on the market (see Figure 6). The most comparable product to the Xprecia Prime™ is the Roche CoaguCheck® Plus, and UBI will quite easily undercut this product with Xprecia Prime™ on price. UBI have already captured part of the market with their first iteration of the device (the Xprecia Stide™) and thus have a suitable track record for marketing and distribution of PT/INR devices. In addition, UBI has set up new distribution centres and associated sales force teams in The Netherlands and now the US.

Clinical and regulatory risk: UBI have commenced a clinical trial for the Xprecia Prime™ to fulfil FDA requirements for approval in the US. 160 patients have been recruited onto the trial thus far (out of a total of 360) and completion is expected mid CY22 – with approval likely to follow in 2HCY22 or early CY23. We do not anticipate any issues given the European CE mark has already been awarded to UBI for this same device. Nevertheless, this is a potential source of regulatory risk for the product.

Funding risk: The company is not yet profitable and yet to generate cash flow from operations. Future profitability is dependent upon successful commercialisation of existing and future products. Shareholders may yet be required to contribute further equity in order to fund the company's operations.

Universal Biosensors

as at 12 August 2022

Recommendation	Buy, Speculative
Price	$0.32
Valuation	$0.60

Table 1 - Financial summary

A$m	FY20	FY21	FY22e	FY23e	FY24e
Year Ending 30 June					
Revenue	**3.2**	**5.8**	**8.4**	**13.9**	**25.5**
Change	*-54%*	*80%*	*40%*	*53%*	*55%*
	0.0	0.0	0.0	0.0	0.0
Cost of sales	-2.6	-3.7	-5.1	-7.8	-12.2
Gross profit	**0.6**	**2.1**	**3.2**	**6.1**	**13.4**
Gross margin	*19%*	*36%*	*39%*	*44%*	*52%*
	0.0	0.0	0.0	0.0	0.0
Other income/(expense)	4.9	4.5	4.5	6.0	6.0
Expenses (excl. D&A, int.)	**-11.0**	**-15.0**	**-15.0**	**-15.5**	**-16.1**
% of revenue	*-342%*	*-259%*	*-179%*	*-112%*	*-63%*
	0.0	0.0	0.0	0.0	0.0
EBITDA	**-5.4**	**-8.3**	**-7.2**	**-3.4**	**3.2**
Depreciation and amortisation	-2.2	-2.2	-2.2	-2.2	-2.2
EBIT	**-7.6**	**-10.5**	**-9.4**	**-5.6**	**1.0**
Net interest (expense)/revenue	0.0	0.0	-0.1	-0.1	-0.1
Pre-tax profit	**-7.6**	**-10.5**	**-9.5**	**-5.7**	**0.9**
Income tax expense	0.0	0.0	0.0	0.0	0.0
NPAT	**-7.6**	**-10.5**	**-9.5**	**-5.7**	**0.9**

Cashflow (A$m)	FY20	FY21	FY22e	FY23e	FY24e
Net loss	-7.6	-10.5	-9.5	-5.7	0.9
D&A and other non cash items	3.0	2.1	2.2	2.2	2.2
Change in w orking capital	-3.6	-1.5	-1.4	-2.4	-4.9
Operating cash flow	**-8.3**	**-9.9**	**-8.7**	**-5.9**	**-1.8**
Proceeds from sale of PPE	0.0	0.0	0.0	0.0	0.0
Purchases of PPE	-0.4	-0.7	-0.5	-0.5	-0.5
Proceeds from gov grants and insurance	0.0	0.0	0.0	0.0	0.0
Acquisition of assets	0.0	0.0	0.0	0.0	0.0
Investing cash flow	**-0.4**	**-0.7**	**-0.5**	**-0.5**	**-0.5**
Reypayment/proceeds of borrow ings	0.0	0.0	0.0	0.0	0.0
Borrow ing costs	0.0	0.0	0.0	0.0	0.0
Proceeds from stock options exercised	0.0	0.1	0.0	0.0	0.0
Financing cash flow	**0.0**	**0.1**	**25.2**	**0.0**	**0.0**
Net change in cash	**-8.6**	**-10.5**	**16.0**	**-6.4**	**-2.3**
Cash at start of period	37.2	28.1	18.1	34.1	27.7
Exchange rate impact	-0.5	0.5	0.0	0.0	0.0
Cash at end of period	**28.1**	**18.1**	**34.1**	**27.7**	**25.4**

Balance Sheet (A$m)	FY20	FY21	FY22e	FY23e	FY24e
Cash & restricted cash	28.1	18.1	34.1	27.7	25.4
Inventories	1.9	2.1	4.0	6.7	12.2
Accounts receivable	0.1	0.5	0.4	0.7	1.3
PPE	4.4	4.1	4.6	5.1	5.6
Intangibles	14.3	12.7	10.5	8.3	6.1
Right-of-use assets	4.0	2.1	2.1	2.1	2.1
Other assets	8.2	7.8	7.8	7.8	7.8
Total assets	**56.4**	**44.5**	**60.7**	**55.5**	**57.7**
Accounts payable	0.4	0.4	0.9	1.5	2.7
Accrued expenses	1.2	2.8	2.8	2.8	2.8
Contingent consideration	1.9	2.1	2.1	2.1	2.1
Current Lease liabilities	0.5	0.5	0.5	0.5	0.5
Asset retirement obligations	2.7	2.7	2.7	2.7	2.7
Lease liabilities	3.6	1.7	1.7	1.7	1.7
Other Lliabilities	8.0	6.7	6.7	6.7	6.7
Total liabilities	**18.4**	**16.9**	**17.4**	**18.0**	**19.2**
Net Assets	**38.0**	**27.6**	**43.3**	**37.6**	**38.5**
Share capital	93.6	93.7	93.7	93.7	93.7
Accumulated deficit	-47.7	-55.3	-55.3	-55.3	-55.3
Current year losses	-7.9	-10.8	-20.3	-26.1	-25.2
Total shareholders' equity	**38.0**	**27.6**	**43.3**	**37.6**	**38.5**

Valuation Ratios (A$m)	FY20	FY21	FY22e	FY23e	FY24e
Reported EPS (cps)	-4.3	-5.9	0.4	4.3	18.2
Normalised EPS (cps)	-4.3	-5.9	0.4	4.3	18.2
EPS grow th (%)	nm	nm	nm	8.9	3.2
PE(x)	nm	nm	74.4	7.5	nm
EV/EBIT (x)	nm	nm	nm	nm	nm
Total assets	56.4	44.5	57.7	68.9	111.5
Net Assets	38.0	27.6	38.5	47.5	86.0
NTA	23.7	15.0	32.4	43.6	84.2
NTA/share cps	0.1	0.1	0.2	0.2	0.4
Book value per share	0.0	0.0	0.0	0.0	0.0
P/NTA (x)	239.9	380.3	209.1	155.3	80.4
Book Value Per Share (cps)	0.2	0.2	0.2	0.2	0.4
Price/Book (x)	149.7	206.0	175.9	142.5	78.8
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Payout ratio %	0.0	0.0	0.0	0.0	0.0
Dividend Yield %	0.0	0.0	0.0	0.0	0.0
Franking %	0.0	0.0	0.0	0.0	0.0
FCF yield %	nm	nm	nm	nm	nm
Net debt/(Cash)	-23.5	-15.3	-22.5	-24.9	-48.4
Net debt/Equity %	0%	0%	0%	0%	0%
Net debt/Assets %	0%	0%	0%	0%	0%
Gearing %	0%	6%	6%	6%	6%
Net debt/EBITDA (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Interest cover (x)	na	na	na	na	na
ROE %	-20%	-38%	2%	19%	45%

Segmentals (A$m)	FY20	FY21	FY22e	FY23e	FY24e
Revenue					
Sale of Goods	2.6	3.8	5.7	9.2	17.4
Services Income	0.6	2.0	2.6	4.8	8.1
Total revenue	**3.2**	**5.8**	**8.4**	**13.9**	**25.5**
Growth					
Sales of goods	-47%	49%	50%	60%	80%
Services income	-69%	208%	35%	80%	70%
Total growth	**-54%**	**80%**	**40%**	**53%**	**55%**

Interim Results	1H21	2H21	1H22e	2H22e
Revenues	3.4	2.4	3.1	5.3
EBIT	-2.6	-7.9	-5.1	-4.3
NPAT	-2.6	-7.9	-5.1	-4.4

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

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Biotechnology Risk Warning

The fact that the intellectual property base of a typical biotechnology company lies in science not generally regarded as accessible to the layman adds further to the riskiness with which biotechnology investments ought to be regarded. Clinical and regulatory risks are inherent in biotechnology stocks. Biotechnology developers usually seek U.S. FDA approval for their technology which is a long and arduous three phase process to prove the safety, effectiveness and appropriate application or use of the developed drug and even after approval a drug can be the subject of an FDA investigation of subsequently discovered possible links between the drug and other diseases not previously diagnosed. Furthermore, the Australian exchange listed biotechnology sector is subject to influence by the global biotechnology sector, particularly that in the USA. Consequently, Australian exchange listed biotechnology stocks can experience sharp movements, both upwards and downwards, in both valuations and share prices, as a result of a re-rating of the sector both globally and in the USA, in particular. Investors are advised to be cognisant of these risks before buying such a stock.

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